

# Thomas Sennett

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109 Walden Street, West Hartford, CT 06107

**March 8, 2016**

## **Dear Members of the Committee:**

My name is Thomas Sennett. I live in West Hartford and I have been a lifelong resident of Connecticut. I am here to offer testimony today in support of **Raised Bill 5591, An Act Creating the Connecticut Retirement Security Program**. I do this because the issue of retirement security has been my life's work. I've spent almost 40 years working in the field of retirement planning. The clients that I worked with ranged from some of the largest companies in the United States to mid-size companies to towns in our State. I served on the pension board of the town in which I live for almost 10 years. My educational background includes both an undergraduate and graduate degree in economics. I hold professional designations as a Certified Financial Planner, Certified Employee Benefits Specialist as well as a Chartered Retirement Planning Counselor. My life's work was something more than simply putting bread on the table. I had the opportunity to work with my associates, my clients and their advisors to positively impact tens of thousands of lives.

My father was part of the Greatest Generation. He grew up during the Great Depression, served in the European theater during World War II and returned from that to spend a life focused on his work, his family and his faith. After a long and successful career, he retired to enjoy truly golden years. Members of the Greatest Generation were typically able to rely upon a traditional pension plan, Social Security and their own savings to make those golden years a reality. Today, traditional pension plans are becoming increasingly rare in the private sector and the long-term viability of Social Security is in question. The greatest responsibility for assuring retirement income adequacy has passed to the individual. Individual employees now have the responsibility of not only assuring adequate retirement savings but determining how to make that happen.

For about half of the population today, individuals have the ability to participate in an employer sponsored retirement program. For over 600,000 employees in Connecticut, that opportunity does not exist. They are left to navigate the complex path to a future retirement on their own. I believe that the Retirement Security Board has done remarkable work in offering a path that makes that journey far less complex. This design takes advantage of many of the lessons learned from individual behavior under employee contributory plans in the private sector. The overriding theme is to eliminate complexity and to keep it simple.

I have a Labrador Retriever that loves to chase squirrels. He will bound out into our back yard looking for a squirrel raiding the bird feeder. He'll chase them up a nearby tree or along the fence trying to catch them (which he never has). One day, he charged out the back door and found at least a half-dozen squirrels across the yard. He froze. With so many choices, he didn't know quite what to do. That's what individuals do when presented with the challenge of figuring out how to save for retirement. The breadth of choices and decisions creates complexity. With so many decisions to be made, they don't know quite what to do and all too often wind up not doing anything at all.

The Board's proposed program addresses a number of critical needs:

**Saving for retirement** - You can't achieve retirement security in the future unless you begin somewhere. Automatic participation in a program assures that the individual begins somewhere, setting aside a portion of their income for the future. Look at lessons learned from enrollment practices in the private sector. In Vanguard's "How America Saves 2015" report, the 2014 participation rate under plans offering automatic enrollment was 89%. For plans offering elective enrollment, that participation rate was 61%. Automatic enrollment makes setting aside money today for tomorrow the path of least resistance.

An important point to keep in mind - automatic enrollment doesn't mean that an individual is 'forced' to save for retirement. They can make an informed decision and choose not to contribute. At the very least, in opting out they have to give active consideration about the challenge of taking care of their future self.

**Investing appropriately** – The use of a target date fund is both a simple and effective solution. There is no need for the individual to figure out which funds to use and how to use each one. A target date fund assures that contributions are diversified across a range of asset classes. Further, portfolio allocations are crafted by professional investors and take advantage of capital market history and theory. They provide an optimally allocated portfolio reflective of an employee's age and investment time horizon until retirement. It is an optimal yet simple solution. The economies of scale that will be afforded by this program will help assure that the cost effectiveness of the investment solution as well.

When we turn over investment decisions to individuals we are asking them to take on the role of Chief Financial Officers. All too often, when they take action, they take the wrong action. Witness the inflows of individual investor money to stock mutual funds in 2007 at the height of the market. Witness the panicked exodus of individual investor money after the 2008 market collapse and before the stock market recovered. Buying high and selling low is not the road to riches.

The other side of the coin is that all too often they do nothing. The book Nudge discusses a study conducted by TIAA-CREF on the asset allocation changes made by participants over the course of their careers. Keep in mind that many of the individuals encompassed in this study were college professors. Over half of the individuals in the study made no changes at all. In fact, many married participants who were single at the time that they joined the plan still had their mother listed as beneficiary.

The target date fund approach offers a logical and cost effective alternative to these missteps of doing too much or doing nothing at all.

**Translating assets into an income that the individual cannot outlive** – The paycheck stops coming at the end of a working career, but the need for income does not. The proposed program provides for the translation of a portion of accumulated savings into an annuity – a stream of income that the individual cannot outlive. The program's economies of scale should help assure that a cost effective annuity solution is available.

**Leveraging the simplicity of Individual Retirement Accounts (IRA)** – Retirement plans commonly offered in the private sector are subject to a myriad of complex laws and regulations. The use of IRAs as the means of accumulating retirement assets sidesteps this complexity for employers. Once again, the Board has embraced simplicity in fashioning a proposed solution to the retirement crises that faces us.

**Leveraging the capabilities of the private sector to administer the program** – The capabilities and infrastructure to administer this type of solution exists today within the private sector. Thus, this need not become a new enterprise for the State. Rather, the role of the State is that of creating a solution that aggregates the buying power of hundreds of thousands of employees to acquire a simple and cost effective means of providing for their retirement.

It may be argued by some that the proposed program is not the appropriate solution. If this is not, what is? And if nothing is done at all, what is the outcome of doing nothing?

**Sincerely,**

**Thomas Sennett**